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Corporates Argentina – Fixed Income

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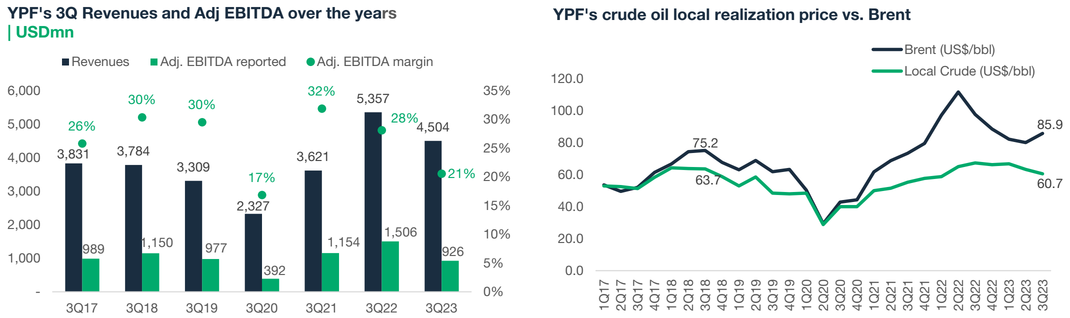
YPF 3Q23: not too bad

YPF reported decent results considering that pump-prices were frozen for 2 months, with revenues reaching USD4,504mn and an adequate net lvg of 1.7x. However, we cannot ignore that the EBITDA margin was 21%, the lowest level (excl. 2020) in the past 7 years, despite YPF's efforts to keep costs down. We expect another adjustment in local prices between Dec-Jan, as Capex is on the rise.

Revenues grew +2.9% qoq to USD4,504mn. Despite revenues being down -15.9% yoy, they remain at a high level from a historical perspective. For instance, revenues were in the range of USD3.8-3.3mn in 3Q17-19, when gasoline and diesel prices were more in line with international ones and macro-economic conditions were different. YPF's domestic crude oil average realization price was USD60.7/bbl while the Brent stood at USD85.9/bbl in 3Q23, a gap of USD25. In contrast, it was USD63.7/bbl and USD75.2/bbl in 3Q18, respectively. YPF is missing the opportunity of the high international price environment to strengthen its cash position. It is because of the governmental interference in the company's pricing policy that is driving the profitability deterioration.

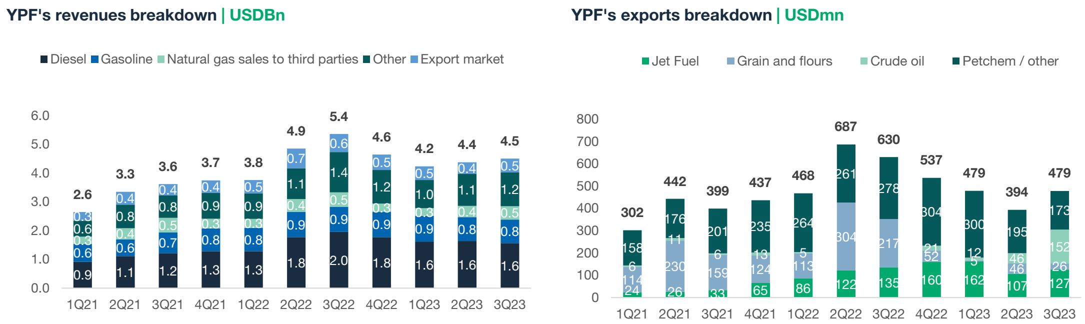
Figure 1: YPF's revenues were high considering lower diesel and gasoline prices in USD terms.



Source: TPCG Research based on YPF's FFSS

As we said in previous reports, the lack of adjustments on local retail prices will be partly compensated by the export market. Although revenues from the export market remained below last year's levels, they improved significantly over the quarters. The main differentiator was crude oil exports. In 3Q23, grain and flours exports were USD26mn, 88% lower than in 3Q22, while crude oil exports jumped to USD152mn from USD46mn in 2Q23. As a result, revenues from the export market reached USD479mn, +22% qoq, standing above the 3Q21 level of USD399mn. It leads us to think that with grain and flour exports improving to at least 2021 levels next year, revenues from the export market will surpass 2022's strong year.

Figure 2: We expect YPF's profitability to be supported by the export mkt



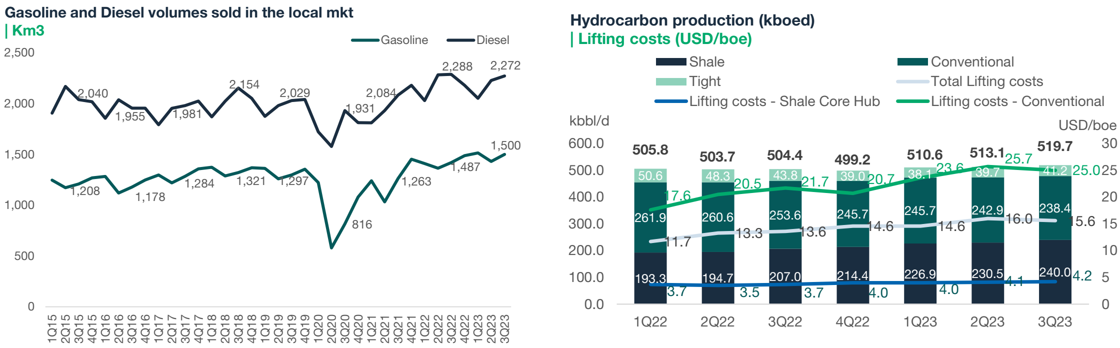
Source: TPCG Research based on YPF's FFSS

This year, the YPFDAR 26s collection account has been filled mainly with petrochemicals and virgin naphtha. Crude oil exports to Chile will increasingly contribute to it. The account must cover at least 120% of the next 2 coupons and amortization payment. In early 2024, the account must have around USD170mn. By year end, the minimum amount will diminish to USD160mn, as interest paid decreases in line with the amount outstanding. Therefore, the exports of one quarter comfortably cover the collection account.

On the local side, gasoline volumes dispatched are on the rise. Not only crude oil exports may help to partly compensate for the lack of price adjustments, but also the increase in diesel and gasoline volumes sold. In 3Q23, gasoline volumes sold increased by +4.8% qoq / +5.7% yoy to 1,500Km3 while the net average price dropped 11.6% yoy / 5.2% to USD499/m3. As a result, gasoline sales only declined 1% qoq / 6.2% yoy to USD824mn. With the recent programmed maintenance stoppages at La Plata and Lujan de Cuyo refineries, crude processed capacity will increase to 340.5kbbld from 328.1kbbld. This will contribute to YPF's fuel import reduction, which tends to increase in summer. This year fuel imports were considerably lower than last year, mainly because of the draught that impacted diesel sales. In addition, YPF decided not to import gasoline and draw down its inventory in 3Q23. However, diesel imported volumes are already at normal levels after increasing +34% qoq to 253Km3 in 3Q23. This explains why fuel imports were up +36% qoq to USD214mn in 3Q23.

If we look at the glass half full, YPF's EBITDA margin did not drop that much, only 2.4pp qoq, considering the drop in gasoline and diesel sales, which account for 76% of YPF's refined products volumes sold. The business that showed the highest resilience to cost pressures was the Upstream. Lifting costs were down 2.3% qoq to USD15.6/bbl, with total production increasing +1.3% qoq and +3.0% yoy to 519.7/kboed. NGL showed the strongest increase, +22.7% yoy / +9.1% qoq to 46.6kbbld. While natural gas production grew +2.9% qoq, driven by shale production (+7.1% qoq), crude oil production was down by 1.7% qoq, with drops in all segments. On the downstream side, what helped to slow down YPF's EBITDA margin was industrialization costs being flat and lower biofuel and non-oil agro purchases to third parties.

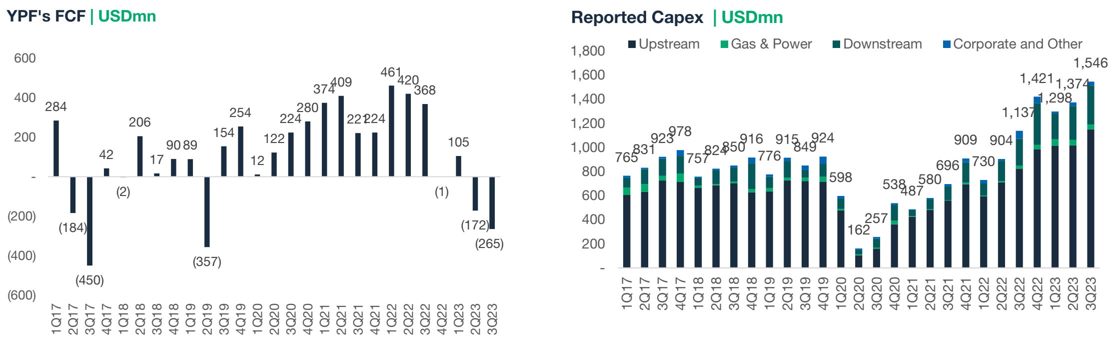
Figure 3: Gasoline and diesel sales are at record levels.



Source: TPCG Research based on YPF's FFSS

FCF was negative for the second consecutive quarter. Management had already warned that they expected a negative FCF in 2023. It was -USD265mn vs. -USD172mn in 2Q23. In our view, the negative FCF could improve significantly with just a correction of fuel prices at the gas stations. What helped to offset the increase in Capex driven by the award of 2 new shales exploratory concessions in Palermo Aike, the construction of a new diesel hydro treatment unit at the Lujan de Cuyo refinery, and the revamp of existing gasoline units at the La Plata refinery, was the increase in account payable days.

Figure 4: FCF was -USD265mn, with reported Capex increasing +13% qoq



Source: TPCG Research based on YPF's FFSS

Reported Capex increased +12.6% qoq / +36% yoy to USD1,546mn, of which USD1,150mn went to the Upstream and USD301mn went to the Industrialization sector. In 3Q23, YPF completed 67 new wells vs. 90 in 2Q23. Completed wells in conventional fields was down to 29 from 49 in 2Q23. In conventional fields, YPF completed 38 vs. 41 wells in 2Q23. Working capital requirements was down to -USD12mn from -USD91mn in 2Q23, thanks to accounts payable cash inflows of USD389mn that offset trade receivable cash outflows of -USD197mn.

To finance the negative FCF the company is tapping the local market. In the past months, YPF issued 2 USD-linked local bonds with 0% coupon: one of USD400mn on September 12th, and the second one of USD127.9mn on October 10th, 2023. The last one will impact 4Q23. As a consequence, total debt (including leases) increased +4.5% qoq to USD8,689mn, of which USD1,836mn is short term. Cash + ST Investments was roughly flat qoq at USD1,478mn, covering short term debt by 81%. In LTM3Q23, the company's net leverage was up to 1.7x from 1.4x in LTM2Q23. Our analysis of YPF shows that as long as getting financing from the local market remains cheap, the company can sustain its capex plan and maintain a slow rate of the correction of pump prices in the short term. However, YPF will need to correct pump prices by the end of 2Q24 in order to ramp up production to boost exports as the local market will not be enough.

Figure 5: YPF SA's 3Q23 summary financials.

Operating Data	3Q22	3Q23	*Chg yoy*	2Q23	3Q23	*Chg qoq*
Crude oil production (Kbbld)	225.3	240.9	*6.9%*	238.5	240.9	*1.0%*
NGL production (Kbbld)	41.7	42.7	*2.5%*	42.9	42.7	*-0.3%*
Gas production (Mm3d)	37.6	36.5	*-3.0%*	36.5	36.5	*0.1%*
Total (Kboed)	**503.7**	**513.1**	***1.9%***	**510.6**	**513.1**	***0.5%***
Summary financials (in USDmn)						
Income Statement Items						
Revenues	**5,357.0**	**4,504.0**	***-15.9%***	**4,375.0**	**4,504.0**	***2.9%***
Opex	(4,484.0)	(4,382.0)	*-2.3%*	(4,166.0)	(4,382.0)	*5.2%*
Adj.EBITDA	**1,506.2**	**926.0**	***-38.5%***	**1,005.0**	**926.0**	***-7.9%***
Net Income	**693.0**	**(137.0)**	***n.m.***	**380.0**	**(137.0)**	***n.m.***
Gross Margin	**30%**	**18%**		**20%**	**18%**	
Adj.EBITDA Margin	**28%**	**21%**		**23%**	**21%**	***-2.4%***
Balance Sheet Items						
Short Term Debt	**1,131.4**	**1,836.0**	***62.3%***	**1,774.0**	**1,836.0**	***3.5%***
Long Term Debt	**6,379.5**	**6,853.0**	***7.4%***	**6,544.0**	**6,853.0**	***4.7%***
Total Debt	**7,510.9**	**8,689.0**	***15.7%***	**8,318.0**	**8,689.0**	***4.5%***
Cash & Cash Eq. + ST Investments	**1,334.5**	**1,478.0**	***10.8%***	**1,470.0**	**1,478.0**	***0.5%***
Gross Leverage (LTM)	**1.5x**	**2.2x**		**1.9x**	**2.2x**	
Net Leverage (LTM)	**1.2x**	**1.7x**		**1.4x**	**1.7x**	
Cash / ST Debt	**118%**	**81%**		**83%**	**81%**	
ST Debt / Total Debt	**15%**	**21%**		**21%**	**21%**	
Debt / Capital	**30%**	**32%**		**31%**	**32%**	
Liquidity ratio	**104%**	**95%**		**99%**	**95%**	
Cash Flow Items						
Funds From Operations	**1,845.9**	**1,413.6**	***-23.4%***	**1,406.6**	**1,413.6**	***0.5%***
Change in Working Capital	(262.0)	(12.0)	*-95.4%*	(91.0)	(12.0)	*-86.8%*
CFO after cash interest & taxes	**1,435.0**	**1,233.0**	***-14.1%***	**1,186.0**	**1,233.0**	***4.0%***
Capex	(1,067.0)	(1,500.0)	*40.6%*	(1,366.0)	(1,500.0)	*9.8%*
Disposals	-	-	*n.m.*	-	-	*n.m.*
Free Operating Cash Flow	**368.0**	**(267.0)**	***n.m.***	**(180.0)**	**(267.0)**	***48.3%***
Acquisition (Disposals)	-	2.0	*n.m.*	8.0	2.0	*-75.0%*
Free Cash Flow	**368.0**	**(265.0)**	***n.m.***	**(172.0)**	**(265.0)**	***54.1%***

Source: TPCG Research based on YPF SA's FFSS

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